

**City of Pontiac  
General Employees' Retiree Health  
and Insurance Benefits Trust**

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**Financial Report  
December 31, 2007**

# **City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust**

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## Independent Auditor's Report

To the Board of Trustees  
City of Pontiac General Employees' Retiree  
Health and Insurance Benefits Trust

We have audited the accompanying statement of trust net assets of City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust (a component unit of the City of Pontiac, Michigan) as of December 31, 2007 and the related statement of changes in trust net assets for the year then ended. These financial statements are the responsibility of the board of trustees of City of Pontiac General Employees' Retiree Health and Insurance Benefits Plan and Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust as of December 31, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

June 20, 2008

# City of Pontiac

## General Employees' Retiree Health and Insurance Benefits Trust

### Management's Discussion and Analysis

#### Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

#### Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	Fiscal Year Ended December 31	
	2007	2006
Total assets	\$ 5,771,958	\$ 5,001,280
Total liabilities	89,448	72,581
Net trust assets	<u><b>\$ 5,682,510</b></u>	<u><b>\$ 4,928,699</b></u>
Net investment income	\$ 318,734	\$ 475,924
Contributions - Employer	451,945	496,386
General and administrative expenses	16,868	17,498
Net increase in trust net assets	<u><b>\$ 753,811</b></u>	<u><b>\$ 954,812</b></u>

#### Overall Fund Structure and Objectives

City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust (the "Trust") exists to pay healthcare benefits to retired members. The Trust is currently accumulating assets to generate investment earnings and there are no benefits currently being paid. The excess of contributions over benefits paid will allow for additional funding to increase investment income to a level where the Trust will generate adequate earnings to pay future benefits. The public capital markets represent the primary source of investments.

# **City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust**

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## **Management's Discussion and Analysis (Continued)**

### **Asset Allocation**

The Trust has invested in a balanced mutual fund that provides exposure to both the equity and fixed income markets. Once an adequate funding level is established, the Trust is expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the Trust.

### **Investment Results**

In 2007, defaulting sub-prime mortgages triggered a global credit crisis in the summer of 2007. In the aftermath, the equity markets declined, giving back a significant portion of the gains garnered in the first six months. Treasuries rallied as investors sought the safety of guaranteed bonds. The domestic equity market declined as compared to last year. The S&P 500 ended the year up 5.5 percent. The fixed income market, as measured by the Lehman Aggregate Index, returned 7.0 percent for the year. The international index, MSCI EAFE, was down 1.8 percent for the quarter and up 11.2 percent for the year. The total fund increased \$753,811 for the year.

The total fund investment return must always be considered in a longer-term context. The asset allocation of each fund is built upon the foundation that the obligations of the Trust to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the Trust over many years, not just one or two years.

**City of Pontiac  
General Employees' Retiree Health  
and Insurance Benefits Trust**

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**Statement of Trust Net Assets  
December 31, 2007**

**Assets**

Investments at fair value - Mutual funds (Note 2)	\$ 5,750,047
Due from City of Pontiac	<u>21,911</u>
Total assets	5,771,958

**Liabilities**

Accounts payable	14,000
Due to General Employees' Retirement System	<u>75,448</u>
Total liabilities	<u>89,448</u>

<b>Trust Net Assets</b>	<b><u>\$ 5,682,510</u></b>
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**City of Pontiac**  
**General Employees' Retiree Health**  
**and Insurance Benefits Trust**

**Statement of Changes in Trust Net Assets**  
**Year Ended December 31, 2007**

**Additions**

Interest and dividend income	\$ 168,786
Net appreciation in fair value of investments	<u>149,948</u>
Net investment income	318,734
Contributions	<u>451,945</u>
Total additions	770,679

<b>Deductions</b> - Professional services	<u>16,868</u>
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<b>Net Increase in Trust Net Assets</b>	753,811
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<b>Trust Net Assets</b> - January 1, 2007	<u>4,928,699</u>
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<b>Trust Net Assets</b> - December 31, 2007	<u><u>\$ 5,682,510</u></u>
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# **City of Pontiac**

## **General Employees' Retiree Health and Insurance Benefits Trust**

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**Notes to Financial Statements**  
**December 31, 2007**

### **Note 1 - Summary of Significant Accounting Policies**

The City of Pontiac (the "City") has established an irrevocable prefunded group health and insurance trust fund, City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust (the "Trust"), for health, optical, dental, and life insurance benefits for retirees who are members of the General Employees' Retirement System of the City of Pontiac (the "System"). Currently, the Trust is in the preliminary phases of accumulating assets to build a corpus, after which point, investment earnings will be used to pay these benefits. The Trust was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The General Employees' Retirement System (the "Retirement System") performs the Trust's accounting function.

**Reporting Entity** - The Trust is a component unit of the City of Pontiac, Michigan. The Trust does not hold securities of or loans to the City or the General Employees' Retirement System.

**Basis of Accounting** - The City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust's statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Insurance costs are recognized when due and payable in accordance with the terms of the Trust.

**Investments** - Investments are reported at fair value. Mutual fund investments are valued at net asset value. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis. In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation for the year is reflected in the statement of changes in trust net assets.

**Federal Income Taxes** - The Trust is exempt from income tax under Section 501(a).



# City of Pontiac

## General Employees' Retiree Health and Insurance Benefits Trust

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**Notes to Financial Statements**  
**December 31, 2007**

### **Note 2 - Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The retiree healthcare fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The System has designated one bank for the deposit of its funds. The System's deposits and investments are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System does not have an investment policy that restricts investment maturities. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted-average Maturity</u>
Mutual fund	\$ 2,300,019	7 years

# City of Pontiac

## General Employees' Retiree Health and Insurance Benefits Trust

**Notes to Financial Statements**  
**December 31, 2007**

### **Note 2 - Investments (Continued)**

#### **Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual fund	\$ 2,300,019	AAA	S&P

### **Note 3 - Trust Contribution Information**

The Trust is funded by employer contributions. The City is required to make minimum contributions in the amount of 3 percent of valuation payroll unless a lesser amount is actuarially determined to be necessary to actuarially fund the Plan. The ordinance that established the Trust requires annual funding of the actuarial rate or 3 percent of valuation payroll.

### **Note 4 - Trustees**

The City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust as of December 31, 2006 had two trustees who sit by virtue of their position, two who were appointed by the City of Pontiac General Employees' Retirement System and the City of Pontiac, and one who was elected by the retirees.

### **Note 5 - Postemployment Benefits**

**Plan Description:** - The City provides retiree healthcare benefits to eligible employees and their spouses through the City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust. This is a single employer benefit plan administered by the City of Pontiac General Employees' Retirement System.

The plan's financial statements are included in the City of Pontiac's financial report and can be obtained by writing to 47450 Woodward Ave., Pontiac MI 48342. In order to be compliant with the Governmental Accounting Standards Board's recently released Statement Number 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, the following information is required to be reported.

# City of Pontiac

## General Employees' Retiree Health and Insurance Benefits Trust

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**Notes to Financial Statements**  
**December 31, 2007**

### **Note 5 - Postemployment Benefits (Continued)**

**Funding Policy** - The City is required by ordinance to contribute 3 percent of eligible payroll unless an actuarial valuation requires a lesser amount. During the year, the City contributed \$451,945 into the trust which is reported in the City's financial statements as a Pension and Other employee Benefit Trust Fund.

The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial value of assets	\$ 4,928,700
Actuarial accrued liability	154,823,626
Unfunded AAL	149,894,926
Funded ratio	3.18%
Annual covered payroll	14,996,753
Ratio of UAAL to covered payroll	10.00%

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# **City of Pontiac General Employees' Retiree Health and Insurance Benefits Trust**

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**Notes to Financial Statements  
December 31, 2007**

## **Note 5 - Postemployment Benefits (Continued)**

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return compounded annually (net of administrative expenses), which consists of a real rate of return of 3.0 percent per year plus a long-term rate of inflation of 4.5 percent per year. It also included healthcare cost increases ranging from 4.5 percent to 10.0 percent for the years included in the valuation. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006 was 25 years.

## **Required Supplemental Information**

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# **City of Pontiac** **General Employees' Retiree Health** **and Insurance Benefits Trust**

## **Required Supplemental Information** **Schedule of Analysis of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/04	\$ 3,202,351	\$ 139,925,086	\$ 136,722,735	2.3	\$ 21,210,461	15.51%
12/31/05	3,973,887	157,048,845	153,074,958	2.5	16,751,815	10.94%
12/31/06	4,928,700	154,823,626	149,894,926	3.2	14,996,753	10.00%

**City of Pontiac**  
**General Employees' Retiree Health**  
**and Insurance Benefits Trust**

**Required Supplemental Information**  
**Schedule of Employer Contributions**

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution *</u>	<u>Amount</u> <u>Contributed</u>
2005	n/a	\$ 612,331
2006	n/a	496,386
2007	n/a	451,945

\* GASB Statement No. 45 is not required to be adopted until the fiscal year ending December 31, 2008

# **City of Pontiac Retirement and Retiree Health Care Systems**

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**Report to the City of Pontiac Boards  
December 31, 2007**





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To the City of Pontiac Boards  
City of Pontiac Retirement and Retiree  
Health Care Systems

We have recently completed our audit of the basic financial statements of General Employees Retirement System, Police and Fire Retirement System, General Employees Prefunded Group Health and Insurance Plan and Trust, and Police and Fire Retiree Prefunded Group Health and Insurance Plan and Trust (the "Systems") for the year ended December 31, 2007. In addition to our audit reports, we are providing the following report on internal control, results of the audit, and informational comments and recommendations which impact the Systems.

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We are grateful for the opportunity to be of service to the Systems. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

*Plante & Moran, PLLC*

June 20, 2008

## Report on Internal Control

To the City of Pontiac Boards  
City of Pontiac Retirement and Retiree  
Health Care Systems

Dear Trustees:

Beginning with the audit of City of Pontiac's Retirement and Retiree Health Care Systems (the "Systems") for the year ended December 31, 2007, national auditing standards require auditors to communicate matters to the governing body that may be useful in its oversight of the Systems' financial management. Specifically, we are required to report internal control issues to the governing body that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. In general, some of these items may have been discussed orally with management in the past.

In planning and performing our audit of the financial statements of the Systems as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a significant deficiency:

To the City of Pontiac Boards  
City of Pontiac Retirement and Retiree  
Health Care Systems

During inquiries made of System personnel while performing required audit procedures, Plante & Moran, PLLC learned of benefit payment expenditures related to the Police and Fire VEBA Trust that were incurred in the current year; however, they were not yet recorded in the general ledger. A journal entry was subsequently prepared by System personnel during the audit. The System has a process in place to properly identify benefit payment expenditures. This process would have identified the underreporting in the subsequent period.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies that constitute a material weakness.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

June 20, 2008

## Results of the Audit

To the City of Pontiac Boards  
City of Pontiac Retirement and Retiree  
Health Care Systems

We have audited the financial statements of City of Pontiac Retirement and Retiree Health Care Systems (the "Systems") for the year ended December 31, 2007 and have issued our report thereon dated June 20, 2008. Professional standards now require (beginning with the audit of the year ended December 31, 2007) that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letters dated April 15, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Pontiac Systems. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in letter form and also in our discussion with Trustee Cochran about planning matters during the month of May 2008.

## **Significant Audit Findings**

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Systems are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2007. We noted no transactions entered into by the Systems during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the City of Pontiac Boards  
City of Pontiac Retirement and Retiree  
Health Care Systems

### **Management's Representations**

We have requested certain representations from management that are included in the management representation letter dated June 20, 2008.

### **Management's Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of City of Pontiac boards of trustees and management of the City of Pontiac Systems and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Beth A. Bialy



Wendy N. Trumbull

## **Other Comments and Recommendations**

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## Other Comments and Recommendations

In addition, we offer the following matters as a result of our audit for your consideration:

### **Board Approval of Pension Payments**

During benefit payment testing for the Police and Fire Retirement System, it was noted that a monthly pension payment being made to one participant (who had been a participant since 2006) never received board approval. Although there are procedures in place to obtain board approval for pension payment amounts to new participants, those procedures were not followed in the instance of this participant. We did not note any exceptions whereby members were receiving amounts different than that prescribed in the plan ordinance; however, we encourage the Systems to ensure that the procedures in place to obtain board approval for pension benefit payment are operating as intended on a consistent basis to ensure the propriety of payments to plan participants.

### **Alternative Investments**

During our review of the current year board minutes for the retirement Systems, we noted many discussions concerning alternative investments. In the past, with the exception of the CAP investments, the Systems have only invested in publicly traded vehicles. As the Systems get larger, it is not unusual for them to add alternative investments to their portfolio. We suggest that the Systems fully review these investment opportunities and follow an established, formal due diligence process to document items such as the following:

- Assertions made by managers of the investments
- A detailed and independent analysis of financial projections
- A summarization of the reasons why the particular investment meets the Systems' investment objectives

Once an investment has been entered into, the agreement should be very clear regarding periodic reporting, annual audits, etc. Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions because of the lack of a readily determinable fair value for these investments and the limited investment information generally provided by the managers of the investments. Some of the processes that should be documented for audit purposes include:

- Documentation of management site visits or telephone calls
- Review by the Systems of periodic statements from the fund or trustee reflecting investment activity. This review should be very comprehensive and address discrepancies between actual performance and the performance set forth in earlier financial projections.



- Controls in place related to periodic draws and whether they meet an established timetable or have otherwise been deemed appropriate
- Use of an investment adviser to monitor the alternative investments, including the underlying investments, and/or to monitor markets or market indicators and their effect on the estimated fair values of the Systems' investment
- The availability of audited financial statements for the alternative investments and whether such statements are as of the same date as the Systems' financial statements, the timing of when such audited financial statements become available, and whether the audits are conducted by qualified and reputable independent audit firms

## **Document Storage**

As mentioned in the past, the Systems are responsible for keeping many important documents and records that often cannot be recreated (i.e., board minutes, member files, financial records, etc.). Given the very limited space allocated to the Systems' offices, it is difficult to provide adequate storage. It is imperative that the Systems maintain storage space that is not only well organized, but is also secure and fireproof. We recommend that the Systems review their current operating space and document storage facilities in an effort to improve conditions in order to ensure the safety of the related records.

In the past, we have suggested looking into document imaging and understand the Systems have begun to research various options as they relate to different imaging systems. Document imaging would mitigate the need to retain paper files for extended periods. Documents would instead be scanned to create an electronic backup. Document imaging, while not necessarily a new technology, is being used increasingly as a means to provide a safe and effective back-up solution while maximizing space limitations.

We also continue to suggest that the Systems should consider various aspects of disaster recovery. If there were a fire or other catastrophe and the paper records and/or computer system were destroyed, the Systems should have a disaster recovery plan in place.

We would like to thank you and your staff again this year for your preparedness, cooperation, and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.